

RD AN No. 4114 (1980-D)  
October 21, 2005

TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors,  
Guaranteed Rural Housing Specialists,  
Rural Development Managers, and  
Community Development Managers

FROM: Russell T. Davis      *(Signed by Russell T. Davis)*  
Administrator  
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)

- Existing Dwelling Inspection Requirements
- Acceptable Origination Appraisal Forms

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the forms of dwelling inspections acceptable for loans guaranteed under the SFHGLP.

The intended outcome of this AN is to restate that the SFHGLP accepts appraisals prepared by Federal Housing Administration (FHA) roster appraisers in accordance with Housing and Urban Development (HUD) Handbook 4150.2 as meeting the inspection requirements of RD Instruction 1980-D, Section 1980.341(b)(1)(i).

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4052 (1980-D) dated February 28, 2005, which referenced a Valuation Condition (VC) Form prepared by FHA roster appraisers. FHA will retire the VC Form on January 1, 2006. In its place, FHA will accept new appraisal forms, some of which are described in an

EXPIRATION DATE:  
June 30, 2006

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

unnumbered letter dated June 10, 2005, entitled “Changes to Single Family Housing Appraisal Forms.” The unnumbered letter may be found by following this link: [http://www.rurdev.usda.gov/regs/ul\\_list.html](http://www.rurdev.usda.gov/regs/ul_list.html). This AN contains new and updated guidance due to the change in appraisal forms approved by Single Family Housing and FHA’s new comprehensive valuation protocol.

#### BACKGROUND:

The basic objective of the SFHGLP is to assist eligible rural households in obtaining adequate, decent, safe and sanitary homes. To this end, an existing dwelling must be inspected to determine that the dwelling meets the current requirements of:

- HUD Handbook 4150.2, *Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings* (Appraisal Handbook), and
- HUD Handbook 4905.1, *Requirements for Existing Housing-One to Four Family Living Units*.

#### Notes:

- In June 1999, HUD issued Handbook 4150.2 to replace the appraiser requirements of Handbook 4150.1 REV-1, *Valuation Analysis for Home Mortgage Insurance*.
- The SFHGLP uses HUD Handbook 4150.2 in place of Handbook 4150.1. We are in the process of updating SFHGLP regulations to refer to the new handbook.
- HUD handbooks and forms can be downloaded over the Internet at <http://www.hudclips.org> or obtained by calling 1-800-767-7468.
- FHA roster appraisers can be identified at <https://entp.hud.gov/idapp/html/apprlook.cfm>.

HUD has published changes to HUD Handbook 4150.2 and its appendixes that will go into effect on January 1, 2006. On that date, the VC Form will no longer be required because the same information will then be completed by FHA roster appraisers in the appropriate sections of the new appraisal forms. The unnumbered letter dated June 10, 2005, indicated that the new appraisal forms would become mandatory on November 1, 2005, however, for SFHGLP purposes this AN authorizes continued use of the old appraisal forms until January 1, 2006. The new appraisal forms may also be used at this time, however, their use is optional until January 1, 2006. Until that date, the VC Form will continue as available to fulfill SFGHLP inspection requirements for existing dwellings when it is completed by an appraiser on the FHA roster.

Six new appraisal forms were approved for Single Family Housing use in the unnumbered letter dated June 10, 2005. Some of the new appraisal forms in the unnumbered letter are intended for exterior-only inspections or for appraisal updates and completions. The new appraisal forms that may fulfill existing home inspection requirements for loan origination purposes beginning January 1, 2006, are limited to the forms listed below.

- Uniform Residential Appraisal Report (FNMA Form 1004/FHLMC Form 70) for one unit single family dwellings;  
[http://www.freddiemac.com/sell/forms/pdf/70\\_0305.pdf](http://www.freddiemac.com/sell/forms/pdf/70_0305.pdf)  
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1004.pdf>
- Manufactured Home Appraisal Report and addendum (FNMA Form 1004C/FHLMC Form 70B) for all manufactured homes;  
[http://www.freddiemac.com/sell/forms/pdf/70b\\_0305.pdf](http://www.freddiemac.com/sell/forms/pdf/70b_0305.pdf)  
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1004c.pdf>
- Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465) for all individual condominium units;  
[https://www.freddiemac.com/sell/forms/pdf/465\\_0305.pdf](https://www.freddiemac.com/sell/forms/pdf/465_0305.pdf)  
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1073.pdf>

The new appraisal forms address the repairs that must be completed in order for the property to be acceptable under the SFHGLP, and the requirements related to individual water supply and sewage disposal systems. When prepared in accordance with HUD Handbook 4150.2 by an appraiser designated on the FHA register, the new appraisal forms are acceptable documentation to comply with:

- Existing Dwelling Inspections made in accordance with RD Instruction 1980-D, Section 1980.341(b)(1)(i), and
- Public water and water/waste disposal system inspections made in accordance with RD Instruction 1980-D, Sections 1980.313(c) and 1980.341(c).

HUD Handbook 4150.2 and its appendixes include the following guidance when individual water supply and/or water/waste disposal (septic) systems serve the subject property:

- If the property is served by an individual water supply system, the local health authority must perform a water quality analysis. If the local authority is unable to perform the water quality analysis in a timely manner, a private commercial testing laboratory or a licensed sanitary engineer acceptable to the authority may take and test water samples. The water supply system must meet the requirements of the local health authority with jurisdiction, and if the local health authority does not have minimum requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.
- The appraiser must note whether the separation distances between the well and the septic tank, the drain field, and the property line comply with HUD guidelines or state well codes.
- If the property is served by a private sewage system, the appraiser must determine whether the sewage system is adequate to dispose of all domestic wastes and does not in any way endanger public health. If in doubt about the proper operation of septic systems for the dwelling or in the neighborhood, the appraiser must condition the appraisal on further inspection and prepare the appraisal “as-repaired” subject to satisfaction of the

condition. The lender must contact the local health authority or a professional to determine the viability of the septic system.

Licensed or certified appraisers that are not FHA roster appraisers should also complete the new appraisal forms as of January 1, 2006, however, in such cases a separate home inspection report prepared by a home inspector deemed qualified by the lender should be obtained. Appraisers who are not on the FHA roster are not approved by FHA to complete appraisals according to HUD Handbook 4150.2 and its appendixes. The Agency will accept appraisals performed by properly licensed or certified appraisers who are not on the FHA appraiser roster, however, in such cases a qualified home inspector should complete a separate home inspection report which must address:

- The physical condition of the structure including the roof surface and foundation;
- The condition of major mechanical systems such as plumbing, electrical, heating and cooling;
- Any readily observable site hazards;
- Any readily observable property considerations such as drainage problems or evidence of wood infestation; and
- Any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair.

Regardless of whether the appraisal is completed by an appraiser on the FHA roster or by a licensed or certified appraiser not on the FHA roster, the lender must obtain documentation for an existing dwelling showing that the following requirements have been met:

- The existing dwelling meets the thermal standards per RD Instruction 1980-D, Section 1980.313(f).
- If the property is served by an individual water supply system, the local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards. \*
- If the property is served by an individual septic system, the septic system must be free of observable evidence of system failure. A FHA roster appraiser (using the VC Form through January 1, 2006, and the appropriately designated appraisal form thereafter), a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic system evaluation.
- For any property in which the lender or FHA roster appraiser is in doubt about the operation of septic systems for the dwelling or in the neighborhood, (e.g., if the property is vacant), the local health authority or a septic system professional has determined the viability of the system.
- Any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair have been completed prior to requesting the Loan Note Guarantee, or the escrow account requirements of RD Instruction 1980-D, Section 1980.315 have been met.
- If required by the lender, appraiser, inspector, or State law, a pest inspection has been obtained showing that the property is free of active termite infestation.

\* The Safe Drinking Water Act does not protect private wells. The rules of the Environmental Protection Agency (EPA) only apply to “public drinking water systems” government or privately run companies supplying water to 25 people or 15 service connections.

Most states regulate private household wells, and most health departments, environmental offices, and county governments should have a list of state certified testing laboratories.

Also, EPA’s Safe Drinking Water Hotline, (800) 426-4791, can help in many ways. The Hotline can:

- Provide the name and phone number of your state’s Laboratory Certification Officer.
- Provide the phone number of your state drinking water program.
- Provide a listing of contaminants public water systems must test for.
- Provide health advisories prepared for specific drinking water contaminants.
- Explain the Federal regulations that apply to public water systems.
- Compare individual water supply lab results to the federal standards. These standards can be found at [www.epa.gov/safewater/mcl.html](http://www.epa.gov/safewater/mcl.html).

#### IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of RD Instruction 1980-D and this AN, Agency field staff reviewing loan files under the SFHGLP are reminded of the following:

- In order to satisfy the requirements of RD Instruction 1980-D, Section 1980.341(b)(1)(i), lenders have the option to choose either:
  - An appraisal performed by an FHA roster appraiser who may continue completing the VC Form until January 1, 2006, and who must complete the new appraisal forms after that date; or
  - An appraisal performed by a licensed or certified appraiser not on the FHA roster and a home inspection. Non-FHA roster appraisers must complete the new appraisal forms beginning on January 1, 2006.
- The lender has the option to choose either an appraisal performed by an FHA roster appraiser, or to obtain an inspection performed by a government health authority or a licensed septic system professional, in order to satisfy the water/waste disposal system inspection requirements of RD Instruction 1980-D, Section 1980.341(c).
- This AN does not change the appraisal requirements in RD Instruction 1980-D, Section 1980.334.
- Even if the appraiser is on the FHA roster, homebuyers may elect to obtain an independent home inspection to assist them in their home purchase decision.
- Properties that meet HUD’s Minimum Property Standards or Requirements should be considered to be in compliance with the repair requirements in RD Instruction 1980-D, Section 1980.313(h).
- SFHGLP requires only those repairs necessary to ensure that the dwelling is structurally sound, functionally adequate, and in good repair under RD Instruction 1980-D, Section 1980.313(h). Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property.

- A appraisal completed by an FHA roster appraiser, either with a VC Form through January 1, 2006, or on one of the new appraisal forms beginning January 1, 2006, should be accepted for compliance with RD Instruction 1980-D, Sections 1980.341(b)(1)(i), 1980.341(c), and 1980.313(c).
- In all cases, the appraiser must inspect the interior and exterior of the subject property, and an exterior inspection should be performed for all comparable sales.

State Offices having questions regarding this AN should contact Joaquín Tremols at (202) 720-1452 or [joaquin.tremols@wdc.usda.gov](mailto:joaquin.tremols@wdc.usda.gov).